

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

FINANCIAL REPORT

Year Ended June 30, 2008

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2
FINANCIAL REPORT
Year Ended June 30, 2008

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Grant Township School District No. 2
Copper Harbor, Michigan

I have audited the accompanying financial statements of the governmental activities and the major fund of Grant Township School District No. 2, as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Grant Township School District No. 2's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of Grant Township School District No. 2, as of June 30, 2008 and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated October 17, 2008 on my consideration of Grant Township School District No. 2's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of my audit.

The management's discussion and analysis and budgetary comparison information on pages 5 through 8 and 22 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "Jackie A. Aalto". The script is cursive and fluid.

Jackie A. Aalto, CPA

Calumet, Michigan

October 17, 2008

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

Management's Discussion and Analysis

This section of Grant Township School District No. 2's ("District") annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2008. Please read it in conjunction with the District's financial statements, which immediately follow this section.

Financial Highlights

- Revenues increased 13.6 percent to \$121,942.
- General Fund expenditures were \$133,305, \$11,363 more than General Fund revenues.

Overview of the Financial Statements

This annual report consists of three parts - management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District. The first two statements are government-wide financial statements that provide both short-term and long-term information about the District's overall financial status. The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the government-wide statements.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information with a comparison of the District's budget for the year.

Government-wide Financial Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the District's net assets and how they have changed. Net assets, the difference between the District's assets and liabilities, are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively. To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's property tax base, the condition of the school building and the long-term cash flow needs of the District.

In the government-wide financial statements, the District's activities are reported as:

Governmental activities – All of the District's basic services are included here, such as instruction, transportation and administration. Property taxes finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs. The District has only one fund, the General Fund

Financial Analysis of the District as a Whole

Net assets – The District's combined net assets were less on June 30, 2008, than the prior fiscal year by \$24,625. The change is due to the general fund expenditures exceeding revenues during the 2007-08 fiscal year.

The table below provides a summary of the District's net assets as of June 30, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Assets:		
Current and other assets	\$ 168,045	\$ 181,374
Capital assets, net of accumulated depreciation	<u>32,950</u>	<u>38,779</u>
Total Assets	<u>200,995</u>	<u>220,153</u>
Liabilities – Current	<u>15,108</u>	<u>12,621</u>
Net Assets:		
Invested in capital assets, net of related debt	32,950	38,779
Unrestricted	<u>152,937</u>	<u>168,753</u>
Total Net Assets	<u>\$ 185,887</u>	<u>\$ 207,532</u>

The table below provides a summary of the District's change in net assets for the years ended June 30, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Revenues:		
Program revenues:		
Charges for services	\$ 3,843	\$ 3,843
Operating grants and contributions	15,350	23,760
General revenues:		
Property taxes	91,433	83,891
Investment earnings	3,883	3,903
State aid - unrestricted	<u>1,402</u>	<u>1,402</u>
Total Revenues	<u>114,509</u>	<u>116,799</u>
Expenses:		
Instruction	74,516	67,987
Support services	<u>64,618</u>	<u>58,025</u>
Total Expenses	<u>139,134</u>	<u>126,012</u>
Change in Net Assets	<u>\$ (24,625)</u>	<u>\$ (9,213)</u>

As reported in the statement of activities, the cost of governmental activities was \$139,134. These activities were primarily funded by property taxes.

A reconciliation of the change in net assets to the change in fund balance appears on page 12.

Financial Analysis of the District's General Fund

The fund level financial statements are reported on a modified accrual basis. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized when incurred.

The District's instruction and support services activities are reported in the General Fund. The District's fund balance was \$136,697.

A reconciliation of the fund balance to the net assets appears on page 11.

Capital Assets

At June 30, 2008, the District had \$32,950 invested in capital assets.

	<u>2008</u>	<u>2007</u>
Building and improvements	\$ 31,000	\$ 31,000
Vehicle	32,000	32,000
Equipment	<u>10,045</u>	<u>10,045</u>
Total capital assets	73,045	73,045
Accumulated depreciation	<u>(40,095)</u>	<u>(34,266)</u>
Net capital assets	<u>\$ 32,950</u>	<u>\$ 38,779</u>

General Fund Budgetary Highlights

The District is required to adopt an operating budget prior to the start of the fiscal year. The District did not adopt its budget until November 2007. Over the course of the year, the District did not revise its budget to reflect changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the District's budget amounts compared with amounts actually paid and received is provided in the Required Supplementary Information section of these financial statements.

Budgeted and actual revenues for the General Fund were \$129,200 and \$121,942, respectively. Budgeted and actual expenditures for the General Fund were \$139,293 and \$133,305, respectively. Actual expenditures exceeded budgeted amounts by \$468 and \$1,542 in general administration and operations and maintenance, respectively.

General Economic Factors

The District depends primarily on local non-homestead property taxes to fund its operations. Based on information currently available, no significant changes are expected to occur in the nature of the funding or operations of the District in 2008.

Contacting the School District's Financial Management

The financial report is designed to provide users of the report with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report, contact Ms. Peggy Kauppi, P.O. Box 74, Copper Harbor, Michigan 49918.

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

**Statement of Net Assets
June 30, 2008**

	<u>Governmental Activities</u>
Assets	
Cash	\$ 73,475
Investments	76,913
Receivables	17,657
Capital assets, net of accumulated depreciation	<u>32,950</u>
Total Assets	<u>200,995</u>
Liabilities	
Accounts payable and other current liabilities	<u>15,108</u>
Net Assets	
Invested in capital assets, net of related debt	32,950
Unrestricted	<u>152,937</u>
Total Net Assets	<u>\$ 185,887</u>

The notes to the financial statements are an integral part of this statement.

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

Statement of Activities Year Ended June 30, 2008

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants & Contributions	
Governmental activities:				
Instruction	\$ 74,516	\$	\$ 15,350	\$ (59,166)
Support services	<u>64,618</u>	<u>3,843</u>	<u></u>	<u>(60,775)</u>
Total governmental activities	<u>\$ 139,134</u>	<u>\$ 3,843</u>	<u>\$ 15,350</u>	<u>(119,941)</u>
General revenues:				
Property taxes				91,433
Unrestricted investment earnings				<u>3,883</u>
Total general revenues				<u>95,316</u>
Change in net assets				(24,625)
Net assets – beginning, as adjusted				<u>210,512</u>
Net assets – ending				<u>\$ 185,887</u>

The notes to the financial statements are an integral part of this statement.

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

Balance Sheet Governmental Funds June 30, 2008

	<u>General Fund</u>
Assets	
Cash	\$ 73,475
Receivables:	
Taxes	2,651
Due from other governmental units	14,843
Interest	163
Investments	<u>76,913</u>
Total Assets	<u>\$ 168,045</u>
Liabilities and Fund Balances	
Liabilities	
Accounts payable	\$ 1,816
Accrued salaries and other liabilities	9,791
Due to other governmental units	3,501
Deferred revenue	<u>16,240</u>
Total Liabilities	31,348
Fund Balance – Unreserved and undesignated	<u>136,697</u>
Total Liabilities and Fund Balance	<u>\$ 168,045</u>
Reconciliation of the Balance Sheet of the Governmental Fund to the Statement of Net Assets	
Total governmental fund balance	\$ 136,697
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$73,045 and the accumulated depreciation is \$40,095.	32,950
Receivables are not available to pay for current-period expenditures and, therefore, are deferred in the fund.	<u>16,240</u>
Net assets of governmental activities	<u>\$ 185,887</u>

The notes to the financial statements are an integral part of this statement.

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds Year Ended June 30, 2008

	<u>General Fund</u>
Revenues	
Local sources	\$ 101,793
Federal sources	16,306
Intergovernmental and other sources	<u>3,843</u>
Total Revenues	<u>121,942</u>
Expenditures	
Instruction	72,507
Support services:	
General administration	13,450
Operations and maintenance	12,562
Transportation	<u>34,786</u>
Total Expenditures	<u>133,305</u>
Net Change in Fund Balance	(11,363)
Fund Balance – Beginning, as adjusted	<u>148,060</u>
Fund Balance – Ending	<u>\$ 136,697</u>

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of the Governmental Fund to the Statement of Activities

Total net change in fund balance – Governmental Fund	\$ (11,363)
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Amounts reported for governmental activities in the statement of activities
are different because:

Governmental funds report capital outlays as expenditures. However, in
the statement of activities, the cost of those assets is allocated over their
estimated useful lives and reported as depreciation expense. This is the
amount by which depreciation expense exceeded capital outlay in the
current period.

	(5,829)
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Revenues reported in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental fund.	<u>(7,433)</u>
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Change in net assets of governmental activities	<u>\$ (24,625)</u>
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The notes to the financial statements are an integral part of this statement.

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

Notes to Financial Statements

June 30, 2008

I. Summary of Significant Accounting Policies

The basic financial statements of Grant Township School District No. 2 have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

A. Reporting Entity

Grant Township School District No. 2 ("District") is governed by the Grant Township School District No. 2's Board of Education ("Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local and federal government sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United States of America. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement No. 14 and 39.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the District. The government-wide financial statements categorize primary activities as either governmental or business-type. All of the District's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other unrestricted items are not included as program revenues but instead as general revenue.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

Notes to Financial Statements

June 30, 2008

measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

The District has only one governmental fund which is the General Fund. This fund is used to account for all financial resources. Revenues are primarily derived from property taxes.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

The District did not have any short-term investments at June 30, 2008. Investments are stated at cost, which approximates fair value, and include only certificates of deposit.

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

Notes to Financial Statements

June 30, 2008

2. *Receivables*

Property Taxes – The District's property tax is levied each July 1 on the taxable valuation of property located within the District as of the preceding January 1. Property taxes are payable without interest on or before September 14 and without penalty on or before February 14. Penalties are collected from February 14 to March 1 at which time property taxes become delinquent.

For the year ended June 30, 2008, the District levied 2.9964 mills on non-homestead property. Property taxes collected more than 60 days after June 30, 2008 are not recognized as revenue of the current year but rather as deferred revenue in the liability section of the balance sheet.

State Revenue – The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2008, the foundation allowance was based on pupil membership counts taken in February and September 2007. The District did not receive any State revenue as its property tax revenue derived from non-homestead property exceeded the District's foundation allowance on a per pupil basis.

3. *Capital Assets*

Capital assets, which include property, vehicle and equipment, are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the District as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year, and computer equipment with an initial cost of more than \$500. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. As the District constructs or acquires additional capital assets each period they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations the District values these capital assets at the estimated fair value of the item at the date of its donation.

Property, vehicle and equipment are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Building and improvements	10 to 50 years
Buses and other vehicles	5 to 10 years
Furniture and other equipment	5 to 25 years

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

Notes to Financial Statements

June 30, 2008

4. *Compensated Absences*

The District generally provides for granting sick or personal leave with pay. The current and long-term liability for compensated absences is reported on the government-wide financial statements. A liability for these amounts, including related benefits, is reported in governmental funds only if they have matured, for example, as a result of employee leave, resignations or retirements.

5. *Fund Equity*

When applicable, in the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

The beginning fund balance has been increased by \$2,980 to reflect grant revenues of the prior fiscal year.

6. *Use of Estimates*

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

II. Stewardship, Compliance and Accountability

A. Budgetary Information

An annual budget is adopted by the District's Board of Education. The budget basis of accounting does not differ significantly from the modified accrual basis used to reflect actual revenues and expenditures for this fund. The budget is adopted at the function level and control is exercised at the function level. All annual appropriations lapse at year end.

B. Excess of Expenditures over Appropriations in Budgeted Fund

During the year ended June 30, 2008, the District incurred expenditures in excess of the amounts appropriated by \$468 and \$1,542 in general administration and operations and maintenance, respectively. These overexpenditures were funded by available fund balance.

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

Notes to Financial Statements

June 30, 2008

C. Failure to Adopt Budget Appropriately

The Board of Education did not hold a public hearing and approve the budget prior to the beginning of the fiscal year.

III. Detailed Notes on all Funds

A. Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the District to make deposits and invest in the accounts of federally insured banks, credit unions and savings and loan associations which have an office in Michigan. The District is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The District has designated three banks for the deposit of District funds. The District's deposits and investment policy are in accordance with statutory authority.

At June 30, 2008 the District's carrying amount of cash and investments (certificates of deposit only) was \$150,388 with a corresponding bank balance of \$124,648, all of which was covered by federal depository insurance.

B. Capital Assets

Capital asset activity for the year ended June 30, 2008 was as follows:

Primary Government

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities				
Capital assets being depreciated:				
Building and improvements	\$ 31,000	\$	\$	\$ 31,000
Vehicle	32,000			32,000
Equipment	<u>10,045</u>	<u> </u>	<u> </u>	<u>10,045</u>
Total capital assets being depreciated	<u>73,045</u>	<u> </u>	<u> </u>	<u>73,045</u>

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

Notes to Financial Statements

June 30, 2008

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Accumulated depreciation:				
Building and improvements	(8,290)	(620)		(8,910)
Vehicle	(25,333)	(3,200)		(28,533)
Equipment	<u>(643)</u>	<u>(2,009)</u>		<u>(2,652)</u>
Total accumulated depreciation	<u>(34,266)</u>	<u>(5,829)</u>		<u>(40,095)</u>
Governmental activities capital assets, net	\$ <u>38,779</u>	\$ <u>(5,829)</u>	\$ <u></u>	\$ <u>32,950</u>

Depreciation expense was charged to activities of the District as follows:

Governmental Activities

Instruction	\$ 2,009
Operations and maintenance	620
Transportation	<u>3,200</u>

Total depreciation expense – governmental activities \$ 5,829

C. Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the deferred revenue consisted of delinquent property taxes of \$1,396 and \$14,844 in intergovernmental revenue.

IV. Other Information

A. Employee Retirement System

Plan Description

The District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer state-wide defined benefit public employee retirement plan governed by the State of Michigan. The MPERS provides retirement, survivor and disability benefits and post retirement benefits for health, dental and vision for substantially all employees of the District. The MPERS was established by Public Act 136 of 1945 and operates under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

Notes to Financial Statements

June 30, 2008

statements and required supplementary information for MPSERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30171, Lansing, Michigan 48909-7671 or by calling (800) 381-5111.

Funding Policy

Member Investment Plan ("MIP") members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work from January 1, 1987 through December 31, 1989, contribute at the following graduated permanently fixed contribution rates: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Actuarial rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPSERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rate for the year ended June 30, 2008 was 17.74% of payroll through September 30, 2007 and 16.72% effective October 1, 2007 through June 30, 2008. The contribution requirements of the plan members and the District are established and may be amended by the MPSERS Board of Trustees. The District's contributions to MPSERS for the years ended June 30, 2008, 2007 and 2006 were approximately \$9,933, \$9,715, and \$7,795, respectively, and were equal to the required contributions for those years.

Other Post-employment Benefits

Retirees have the option of health coverage, which is funded on a cash disbursement basis by the employers. The MPSERS has contracted to provide the comprehensive group medical, hearing, dental and vision coverage for retirees and beneficiaries. A significant portion of the premium is paid by the MPSERS with the balance deducted from the monthly pension.

The District is not responsible for the payment of retirement or post-employment benefits which is the responsibility of the State of Michigan.

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

Notes to Financial Statements

June 30, 2008

B. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The District purchases commercial insurance to cover any losses that may result from the above described activities. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

C. Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal and state government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the District expects such amounts, if any, to be immaterial.

Required Supplementary Information

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

**Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2008**

	Original & Final Budget	Actual
Revenues		
Local sources	\$ 96,300	\$ 101,793
State sources	100	
Federal sources	28,600	16,306
Intergovernmental and other sources	<u>4,200</u>	<u>3,843</u>
Total Revenues	<u>129,200</u>	<u>121,942</u>
Expenditures		
Instruction	78,981	72,507
Support services:		
General administration	12,982	13,450
Operations and maintenance	11,020	12,562
Transportation	<u>36,310</u>	<u>34,786</u>
Total Expenditures	<u>139,293</u>	<u>133,305</u>
Net Change in Fund Balance	(10,093)	(11,363)
Fund Balance – Beginning, as adjusted	<u>148,060</u>	<u>148,060</u>
Fund Balance – Ending	<u>\$ 137,967</u>	<u>\$ 136,697</u>

Federal Programs

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

To the Board of Education
Grant Township School District No. 2
Copper Harbor, Michigan

I have audited the financial statements of the governmental activities and the major fund of Grant Township School District No. 2 as of and for the year ended June 30, 2008, which collectively comprise Grant Township School District No. 2's basic financial statements and have issued my report thereon dated October 17, 2008. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing my audit, I considered Grant Township School District No. 2's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinions on the financial statements but not for the purpose of expressing an opinion on the effectiveness of Grant Township School District No. 2's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of Grant Township School District No. 2's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, I identified certain deficiencies in internal control over financial reporting that I consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Grant Township School District No. 2's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Grant Township School District No. 2's financial statements that is more than inconsequential will not be prevented or detected by Grant Township School District No. 2's internal control. I consider the deficiencies described in the accompanying schedule of findings and responses as item 2008-01 and 2008-2 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Grant Township School District No 2's internal control.

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, I believe that neither of the significant deficiencies described above is a material weakness.

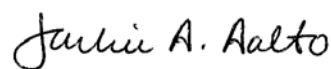
Compliance and Other Matters

As part of obtaining reasonable assurance about whether Grant Township School District No. 2's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

I noted certain matters that I reported to management of Grant Township School District No. 2 in a separate letter dated October 17, 2008.

Grant Township School District No. 2's response to the findings identified in my audit is described in the accompanying schedule of findings and responses. I did not audit Grant Township School District No. 2's response and, accordingly, I express no opinion on it.

This report is intended solely for the information and use of the board of education, management, federal and state awarding agencies, and, if applicable, pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



Jackie A. Aalto, CPA

Calumet, Michigan
October 17, 2008

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

Schedule of Findings and Responses

Year Ended June 30, 2008

SIGNIFICANT DEFICIENCIES

2008-01 Internal Control Design

Criteria: The segregation of incompatible financial duties is important to adequately protect the District's assets and ensure accurate financial reporting.

Condition: Presently there is not an adequate number of personnel available to properly segregate duties to provide reasonable assurance that no one employee would have access to both physical assets and related accounting records, or to all phases of a transaction.

Effect: Without proper segregation of duties, the risk increases that errors and fraud could occur and not be detected within a timely basis.

Cause: The District's limited population and resources result in the inability to provide sufficient staffing to fully segregate incompatible duties.

Recommendation: Efficient segregation of duties in a small environment is often difficult; however, I feel that the District's board should be aware of the risk associated with this lack of duty segregation and attempt to exercise as much oversight control in these areas as possible and feasible.

Response: We concur with the recommendation.

2008-02 Documentation of Allowable Costs

Criteria: The cost principles of OMB Circular A-87 require, "Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee".

Condition: The District did not complete the time certifications required for the employees working solely on a single Federal award or cost objective.

Effect: Salaries and wages charged to the program could be disallowed due to the lack of proper documentation of time spent by employees.

Cause: The cause of the condition was the lack of knowledge of the requirement of the Circular in regards to the need for time certification

Recommendation: The District should develop a standard time certification form and have the appropriate employee or other supervisory employee complete the certifications every six months.

Response: The District agrees with the recommendation and has implemented procedures to properly document allowable costs.

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

Schedule of Prior Audit Findings

Year Ended June 30, 2007

SIGNIFICANT DEFICIENCIES

2007-01 Internal Control Design

Criteria: The segregation of incompatible financial duties is important to adequately protect the District's assets and ensure accurate financial reporting.

Condition: Presently there is not an adequate number of personnel available to properly segregate duties to provide reasonable assurance that no one employee would have access to both physical assets and related accounting records, or to all phases of a transaction.

Effect: Without proper segregation of duties, the risk increases that errors and fraud could occur and not be detected within a timely basis.

Cause: The District's limited population and resources result in the inability to provide sufficient staffing to fully segregate incompatible duties.

Recommendation: Efficient segregation of duties in a small environment is often difficult; however, I feel that the District's board should be aware of the risk associated with this lack of duty segregation and attempt to exercise as much oversight control in these areas as possible and feasible.

Status: The Board of Education has provided oversight control in the District's activities.

To the Board of Education
Grant Township School District No. 2
Copper Harbor, Michigan

In planning and performing my audit of the financial statements of Grant Township School District No. 2 ("District") as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, I considered the District's internal control over financial reporting (internal control) as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, I do not express an opinion on the effectiveness of the District's internal control.

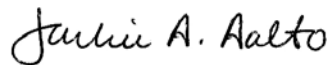
My consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, during my audit I noted certain matters involving the internal control and other operational matters that are presented for your consideration. This letter does not affect my report dated October 17, 2008 on the financial statements of Grant Township School District No. 2. My comments are summarized as follows.

- The Board of Education has the responsibility of reviewing the budget presented, holding a public hearing, modifying it as necessary, and approving it for implementation prior to the beginning of the fiscal year. The budget for the current year was adopted after the beginning of the fiscal year and a public hearing was not held. In addition, there were over expenditures in the budget as listed in the Notes to the Financial Statements. The board must amend the budget as soon as a deviation is apparent. In the future I recommend the budget be adopted and implemented as required by Section 18 of the Uniform Budget Act.
- Budgets are to be posted to the District's website within 30 days after the board adopts its annual operating budget (General Appropriations Act) and after any subsequent amendments to that appropriation. I recommend that the District make the appropriation and subsequent revisions available on its website in a format manner prescribed by the department.
- The District needs to adopt formal policies regarding the procedures to be used for documenting allowable expenditures pertaining to federal funds and for requesting reimbursements.
- Receipts are not being issued when cash is received. Pre-numbered receipts should be made for all revenues that are collected by the District indicating the name of the payer, the amount paid, the purpose of payment, the account number they are being posted to, and the signature of the person receiving the funds. This is to help ensure that all of the revenues collected by the District are accounted for. I also noticed that the checks that were received appeared to be held for several months before being deposited into the bank accounts. I recommend that deposits be made on a routine basis and at a minimum monthly.
- Currently, the Board of Education does not annually authorize check signers. A current listing of authorized check signers, which is approved annually by the Board of Education, should be maintained to ensure proper authorization of all disbursements. I recommend the listing be periodically reviewed and updated each time a change in check signers occurs and that the bank be promptly and formally notified of any change.

- The Board of Education does not annually authorize the use of specific financial institutions for its deposits. For purposes of risk management, the Board of Education should consider the number and location of financial institutions to be used by the District with the goal of minimizing the risks associated with uninsured cash while maintaining the convenience of holding accounts in the local geographic area. Based on these considerations, I recommend the Board of Education annually authorize the financial institutions to be used for District cash management.
- The District should review its account coding structure to ensure that it is consistent with Financial Accounting for Local and State School Systems published by the National Center for Education Statistics, November, 2003. Recommendations made in this section are those necessary to satisfy state and federal information requirements. The accounting system designed should accommodate the planning, budgeting, evaluating, and analysis functions of the District.
- During the course of my audit, it was noted that no formal documentation exists for employee pay rates and benefits. I suggest that the Board formally document all authorized pay rates and benefits and that documentation should be placed in personnel files.

This communication is intended solely for the information and use of the Board of Education, management, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

I would like to thank the District personnel for their courtesy and assistance during the audit. I appreciate the opportunity to serve as your auditor. If there are any questions about your financial report or the above comments and recommendations, I would be happy to discuss them at your convenience.



Jackie A. Aalto, CPA

Calumet, Michigan
October 17, 2008